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MEMORANDUM



**DATE:** April 24, 2003  
**TO:** House Appropriations Subcommittee on Transportation  
**FROM:** William E. Hamilton  
**RE:** Preserve First

**Summary** – On Thursday April 3, 2003, Michigan Department of Transportation director Gloria Jeff announced the “*Preserve First*” program as “*a new program that increases emphasis on the preservation of our transportation system rather than on expanding it.*” Program details were unveiled in subsequent department briefings. The program has several elements:

*Advancing planned preservation projects* – The department proposes to advance 10 preservation projects, totaling \$182.0 million, into the 2003 construction season <sup>1</sup>. These are projects for which design plans have been completed, but which were originally scheduled for construction in 2004. The department has sufficient state-restricted funding available (State Trunkline Fund revenue) to start the projects. At a later date, as federal funds become available, the department intends to replace up to 80% of the state funds expended with federal funds <sup>2</sup>. This is a financing mechanism known as “*advance construct.*”

*New preservation projects* – The department intends to develop \$350.0 million to \$400.0 million in new preservation projects for construction over a three year period, 2004 to 2007. These projects would include capital preventive maintenance projects, highway reconstruction and rehabilitation projects, and bridge rehabilitation projects. Funds needed to develop these projects would come from deferring capacity improvement projects currently on the department’s Road and Bridge Program, as well as from bonding.

*Deferred capacity improvement projects* – The department has indicated that it will defer all capacity improvement projects not already under contract. For those projects where environmental clearance, design work, or right of way acquisition is currently under way, that work would continue. But the department would defer advancing those projects to subsequent phases, including the construction phase, until the department believes it can meet and sustain its goal of 95 percent of freeways and 85 percent of non-freeway trunklines in “good” condition by 2007 <sup>3</sup>.

*Bonding* – The department anticipates selling up to \$260.0 million in State Trunkline Fund revenue bonds for *Preserve First* projects. The sale date would depend on cash-flow needs. The department does not anticipate selling bonds in the current year – possibly sometime in 2004. The department has not yet determined if it will ask the State Transportation Commission for additional bonding authority, or for a reprogramming of Build Michigan III bonds previously authorized by the Commission. Of the \$900.0 million originally authorized for the Build Michigan III program, only \$308.2 million in bonds have been sold.

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<sup>1</sup> See attached project list provided by the department.

<sup>2</sup> For most projects, federal funds reimburse 80% of project cost.

<sup>3</sup> See attached document, provided by the department, showing the status of new road and capacity improvement projects as of March 2003, including deferred projects.

**Background** - The Michigan Department of Transportation has direct responsibility for the operation and maintenance of the state trunkline system. That system represents approximately 9,700 miles of state trunkline highways, and 4,400 system bridges. The department develops a multi-year trunkline road and bridge program, and communicates that program to the State Transportation Commission, the state legislature, and to other interested parties through two primary formats: a *5-Year Road and Bridge Program*<sup>4</sup> (updated annually), and through a current-year *Road and Bridge Program* document.

The most recent 5-Year Road and Bridge Program (also called the 5-Year Plan) identified \$6.297 billion in planned road and bridge capital and maintenance expenditures for the 2002-2006 period – an average of \$1.260 billion per year<sup>5</sup>. The current-year Road and Bridge Program, submitted to the State Transportation Commission in September 2002, identified \$1.360 billion in planned road and bridge capital and maintenance expenditures for 2003.

The department's Road and Bridge Program documents discuss various program components, and also identify planned projects by region. The program components, and the specific projects within the proposed program, reflect multiple transportation goals. Among identified goals are: preservation of the existing road and bridge system, safety, mobility, and economic development<sup>6</sup>.

Generally speaking, the goal of system preservation is served by projects involving the rehabilitation or reconstruction of existing roads and bridges, as well as through routine maintenance, and capital preventive maintenance projects. Preservation projects represent the largest share of the department's annual road and bridge program – approximately \$1.108 billion of the \$1.360 billion FY 2002-03 proposed Road and Bridge Program.<sup>7</sup> To some extent, the goals of safety, mobility, and economic development are served by projects that increase system capacity and reduce traffic congestion through lane widening, new or reconstructed freeway interchanges, or new road construction<sup>8</sup>.

As noted above, the largest portion of the department's road and bridge program is dedicated to the repair and maintenance of the existing trunkline road and bridge system. The department has indicated that the primary goal of this program was to improve the condition of state trunkline highways so that 95 percent of freeways, and 85 percent of non-freeways on the state trunkline system, would be in "good" condition by the year 2007<sup>9</sup>.

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<sup>4</sup> The Legislature added boilerplate Section 307 to the FY 1999-2000 transportation appropriations bill, SB 372, (PA 136 of 1999) to require that the department provide its "rolling five-year plan" to the legislature and to the House and Senate fiscal agencies, by February 1 of each year. This boilerplate requirement has been included in subsequent appropriations bills including the current-year appropriation act, PA 561 of 2002.

<sup>5</sup> The most recent 5-Year Plan, Volume IV, for the period 2002-2006, was published in May 2002. It can be found at the department's web site: [http://www.michigan.gov/mdot/0,1607,7-151-9622\\_11045\\_12719---,00.html](http://www.michigan.gov/mdot/0,1607,7-151-9622_11045_12719---,00.html)

<sup>6</sup> These transportation goals are discussed in the 5-Year Road and Bridge Program, as well as in the "State Long Rang Plan 2000-2025" published in August 2002. This document can be found on the department's web site at [http://www.michigan.gov/mdot/0,1607,7-151-9622\\_11045\\_12719---,00.html](http://www.michigan.gov/mdot/0,1607,7-151-9622_11045_12719---,00.html)

<sup>7</sup> As shown on the department's "2003 Road and Bridge Program" dated September 26, 2002. This program plan may be changed as a result of the *Preserve First* initiative discussed further in this memo.

<sup>8</sup> The above description is, of course, a broad generalization. Most road improvement projects encompass more than one goal.

<sup>9</sup> The department has identified this as a goal for a number of years including in the first 5-Year Road and Bridge Program dated January 1999.

**Preserve First** - In late 2002 the department concluded that it would be unable to meet its goal of 95 percent of freeways, and 85 percent of non-freeway trunklines, in “good” condition by 2007. The projected failure to meet this goal was due, at least in part, to the reductions in available revenue from the estimates used to develop the planned Road and Bridge Program. In order to meet the 2007 goal, the department concluded it would have to adjust the planned Road and Bridge Program in several ways, including:

- ❖ *Advancing 10 planned preservation projects from 2004 to 2003*
- ❖ *Developing \$350.0 million to \$400.0 million in new preservation projects for construction over three years, 2004 to 2007.*
- ❖ *Deferring capacity improvement projects*
- ❖ *Bonding for up to \$260.0 million for Preserve First Projects*

The four elements of the Preserve first program are discussed generally in the Summary section above. However, the department’s plan to defer the construction of a number of capacity improvement projects has attracted the most legislative attention and is discussed further below:

***Capacity improvement project deferrals*** – On January 31, 2003 Governor Granholm announced the deferral of four Build Michigan III capacity improvement projects. On April 7, 2003, the department indicated that 34 capacity improvement projects, including the four previously announced, would be deferred<sup>10</sup>. In effect, all capacity improvement projects not already under contract would be deferred until the department believes it can meet and sustain its goal of 95 percent of freeways and 85 percent of non-freeway trunklines in “good” condition by 2007. One of the most important factors in determining whether the goal can be achieved and sustained is sufficient available revenue.

For those projects where environmental clearance, design work, or right of way acquisition is currently under way, that work would continue. But the department would defer advancing those projects to subsequent phases, including the construction phase.

Of the 34 deferred projects, most involved lane widening, or the construction or reconstruction of expressway interchanges. Only two appeared to involve new highway construction (US-31, Holland to Grand Haven; US 131, St. Joseph County). The department indicated that it would proceed with preservation components of three projects, the Ambassador Bridge Gateway project (the I-75 and I-96 at the Ambassador Bridge) in Detroit, the I-696 at Franklin Road project in Oakland County, and the I-96 at 36<sup>th</sup> Street project in Kent County. However, the capacity improvement elements of those projects would be deferred.

Thirteen of the deferred projects were part of the Build Michigan III program. That is to say, at least some phase of the project had been previously identified as a Build Michigan III project.

For some projects, the Preserve First initiative simply acknowledges what was what was implied in previous Road and Bridge Program documents, that funding for the construction phase of the project had not been identified. For example, early preliminary engineering and design work for the reconstruction and widening of I-94 in Detroit and I-75 in Oakland County had been included in department 5-Year Plans. However, no construction funding was identified. Preliminary cost estimates for the construction of the I-94 project are \$1.3 billion, and for the I-75 project, \$1.0 billion.

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<sup>10</sup> The department’s press release describes 34 separate projects. However, in many cases these projects are comprised of several phases or elements which are each shown separately on the department’s Road and Bridge Program documents. The department subsequently identified 49 separate project work phases which would be deferred in the Preserve First initiative.

### ***Capacity Improvement Criteria***

For purposes of the Preserve First initiative, the department defined “capacity improvement project” as “*a major capital expenditure (\$500,000 or more) which measurably increases the capacity of the state trunkline system by constructing at least one new permanent lane for traffic.*” Examples of capacity improvement projects include new roads, lane additions greater than 1/2 mile in length, widening or lengthening of structures – including new or relocated interchanges.

The department excluded certain types of projects from the definition of capacity improvement. It did not include passing relief lanes, intersection improvement projects (turning lanes), freeway modernization (safety) projects, or bridge reconstruction projects – including adding width. The department indicated that these projects, excluded from the “capacity improvement” definition, would not be deferred.

In addition, the department indicated that it would not defer work on congressionally designated high priority projects.

As noted above, the department estimates that deferring capacity improvement projects would free \$350.0 million to \$400.0 million which would be redirected for new preservation projects over a 3-year period, 2004 to 2007. The department indicates that these new projects will be a mix of capital preventive maintenance (CPM), highway reconstruction and rehabilitation, and bridge rehabilitation projects.

### **Will all the deferred projects be deferred until 2007?**

Not necessarily. The department indicates that it will defer capacity improvement projects until it can meet and sustain the goal of 95 percent of freeways and 85 percent of non-freeway trunklines in “good” condition by 2007. At the point the department believes that it is on target to meet that goal, it may begin to advance some of the deferred projects. This may occur prior to 2007.

However, one of the most important factors in determining whether the goal can be achieved and sustained is sufficient available revenue. The Governor’s January 31, 2003 announcement indicated that four projects would be deferred “*until additional federal funding can be secured and other issues resolved.*” The amount of federal funds available to Michigan for the 2003-04 fiscal year and beyond will not be known until after the reauthorization of the federal-aid highway program. It is anticipated that Congress will act on a reauthorization bill sometime in the current year. It is unlikely that the department will start to advance deferred capacity improvement projects until sometime after the federal-aid reauthorization bill is enacted.